
Llantrisant Community Council
Cyngor Cymuned Llantrisant

Internal Audit Report (Final Update) 2017-18

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For and on behalf of
Auditing Solutions Ltd

Background and Scope

The Accounts and Audit Regulations introduced from 1st April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing a local contractor from the outset: due to ill health, they resigned and we, at Auditing Solutions Ltd were appointed to provide the function to the Council for 2016-17 and beyond. This report sets out our findings, in the areas examined, during our two visits to the Council for 2017-18, which took place on 8th November 2017 and the 12th April 2018.

Internal Audit Approach

In conducting our review for 2017-18, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit report in the Council's Annual Return, which covers the basic financial systems and requires assurances in eleven separate areas.

Overall Conclusion

We are pleased to report that, in the areas examined this year, the Councils' officers continue to operate effective financial control systems with no significant areas of concern identified. We noted a small number of issues during the course of our 2016/17 review visits, as reported in our final report for the year, have reviewed the current position and are pleased to acknowledge the positive actions taken to address the issues raised.

During our Interim Audit visit for 2017/18 we made one recommendation and are pleased to note that the Council has already taken positive action to address this as detailed in the body of the appended Action Plan.

On the basis of the overall satisfactory conclusion of our review process for the year, we have duly signed off the Internal Audit Report in the year's Annual Return assigning positive assurances in each relevant area.

Please note that we have dated our report in the Annual return on today's date, 18th April 2018, rather than on the actual date of the Audit, as the Annual Return had not been issued to the Council by BDO at the date of our Final Update Audit.

Finally, we are pleased to acknowledge the continued high quality of records maintained by the Clerk and RFO and thank the RFO for her assistance, which has ensured the smooth progress of our review process. We ask that the report be presented to the Council and that a response is provided to the one recommendation that we have made.

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We are pleased to note that the Council uses the Omega accounting software, also noting the existence of three bank accounts, two with Unity Trust Bank (Current and Reserve), together with a Lloyds account for the Youth Club. We have: -

- Ensured that the opening trial balance detail for 2017-18 agrees with that in the 2016-17 Statement of Accounts and certified Annual Return;
- Verified that the financial ledger remains “in balance” at the present date;
- Ensured that the cost and expenditure coding structure is appropriate for purpose;
- Checked detail of 100% of the transactions in the current and other account cashbooks to the supporting bank statements for the year to 31st October 2017 and for March 2018, together with all inter-account transactions between accounts;
- Checked and agreed detail on the bank reconciliations as at 30th April, June and September 2017 and March 2018 on the current account and to 31st March 2018 on the other accounts;
- Reviewed the procedures in place for security of electronic data noting that it is backed-up both on-site to an external hard drive which is kept in a fire proof safe at the Council’s offices and also to a Cloud drive facility; and
- Considered the controls over the raising and validation of journals, noting that all journals are raised by the RFO and that now, each journal is checked and verified by a member of the council subsequently.

Conclusions

No significant issues have been identified in this area to date: we are pleased to note that subsequent to our previous recommendation, bank reconciliations and journals raised are now subjected to independent scrutiny and authorisation.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to reasonably ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. Consequently, we have: -

- Noted that the Council’s Standing Orders (SOs) are subject to periodic review and update and are based on the One Voice Wales model documents, also noting that they were re-adopted at the Annual Meeting of the Full Council in May 2017;
- Noted that the Financial Regulations (FRs) are subject to periodic review and update and are based on the One Voice Wales model documents, these were also re-examined and formally re-adopted at the Annual Meeting of the Full Council in May 2017;
- Noted that the both the Clerk and the RFO are currently undertaking CiLCA studies in order that the Council may, once formally promulgated in Wales, apply the General

Power of Competence, rather than rely on the Power of Wellbeing currently in use and cash limited, as was the former “Free Resource - Section 137”; and

- Completed our review of Council and Standing Committee minutes for the year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council’s future financial stability with no issues arising.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Review of Expenditure and VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council’s approved procedures and approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- The correct expense codes have been applied to invoices when processed, with one exception as mentioned below; and
- VAT has otherwise been appropriately identified and coded to the control account for periodic recovery.

We have examined the processes for incurring expenditure; reviewing resultant trader invoices, payment documents and receipts, and their subsequent approval for payment and consider them appropriate for the Council’s requirements. We are pleased to note that the RFO and members are now evidencing their review of payment documentation in the space designated by the certification stamp affixed to each.

To ensure compliance with the above criteria, we have examined a sample of non-pay related payments in the financial year to date including all those individually in excess of £500 plus every 15th other payment, as recorded in the current account cashbook. Our test sample included a total of 67 individual payments, totalling, £84,153 and equating to 66% of all non-pay related payments made in the Financial Year to the 31st March 2018. We have also examined a sample of three months’ credit card transactions on the Barclays Bank Credit Card account, ensuring that each also complied with the above criteria and that items using the credit card were of the type we would expect to see procured by the Council.

We note that quarterly VAT reclaims are prepared and submitted: the first three quarters VAT returns have been settled accordingly and we have verified the value of each to the underlying Omega control account detail. We also checked the Q4 VAT return, that was in the process of being submitted, to the underlying Omega control account detail with no issues arising.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We are pleased to note that members formally reviewed the Finance and Health & Safety Risk Registers in its Annual Meeting in May 2017 and that moving forward, members have acquired and resolved to use the Local Council Risk System software for its Risk Management requirements.

We have also examined the Council's insurance policy schedule, now placed with Hiscox due to the cost savings achieved, noting that Employers', Products and Public Liability cover all stand at £10 million, together with Fidelity Guarantee cover at £500,000 and appropriate Business Insurance – "Loss of Revenue" cover in place at £10,000. We consider these levels appropriate for the Council's present requirements.

We note that the Council is not responsible for the management of any playground, recreation area or facility.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Precept Determination and Budgetary Control

Our aim here is to ensure that: -

- The Council has undertaken a budget determination exercise, which forms the basis of the annual precept request from the parent Council.
- The Council has received regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We note that an appropriate and robust Budget setting and Precept determination exercise was undertaken by the Council's Scrutiny Committee, making formal recommendations in its January meeting and subsequently members, formally approved and adopted the 2018-19 Budget and a Precept of £212,359 in the meeting of the Full Council in February 2018.

We are also pleased to note that members are provided with regular monthly budget performance reports generated by the Omega accounting software and now have detailed quarterly financial updates. We have reviewed the year-end outturn and corresponding variance report with no issues arising that require further or more detailed explanation.

Finally, in this review area, we have considered the level of funds retained in the General and Earmarked Reserves noting that they stand as at 31st March 2018 at £94,469 and £24,002 respectively (£96,142 & £27,815 respectively as at 31st March 2017). The General Fund balance equates to approximately three-and-a-half months' revenue expenditure and although this is at the lower end of the scale, it is in line with the generally recognised CiPFA guideline of between three and six months such spending.

Conclusions

We are pleased to record that no issues arise in this area: we consider the level of retained reserves appropriate to finance ongoing revenue spending and the Council's development, etc aspirations.

We do note however, that the EMRs are recorded as being in 'one-pot' in the Omega accounts software. Resultantly, the movements to and from the reserves, and the Year End balances are recorded in an external spreadsheet. It is considered best practice to set up each individual EMRs in Omega, so that all movements on reserves may be reported on directly from the Council's accounts software, ensuring the accuracy of the information and reducing the amount of time the RFO spends administering this process.

R1. All EMRs to be set up individually in Omega so that financial transactions may be made directly to and from the reserves and reported on directly from the accounts software.

Review of Income

In this review area, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations.

As noted above, the Fees and Charges are now subjected to annual review and approval during the Council's Annual Budget setting and Precept determination process.

We examined, during the interim visit, the booking diary maintained for both of the Council's halls, checking and ensuring that signed Hire Agreement forms are held for each hirer; that an appropriately priced and timely invoice has been raised and that fees due are being repaid in a timely manner.

We also examined the procedures in place in relation to the collection and banking of fees received from the Youth Club, checking detail from the underlying records prepared by the organisers through to the Omega cashbook and, as detailed above, their consequent banking noting that income continues to be banked intact and agreed at that time, that the £50 petty cash float has proved adequate for all ad hoc purchases required by the Youth Club.

At the Final Update Audit visit we were informed by the RFO that the Youth Club had now been closed due to falling attendance numbers. The corresponding loss of revenue was recorded in the cashbooks and resulted in a statement on the Council's variance report. As a result of the closure the Petty Cash float had been returned to the General Reserve. A residual balance of £823 is maintained on the Youth Club bank account whilst alternative provisions for Youth Services are sought.

Finally, in this area, we have examined the detailed nominal ledger income reports for the year to date ensuring that, as far as we are able to reasonably ascertain, all income due to the Council has been received and recorded appropriately.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Petty Cash Account

Whilst the amount of petty cash expenditure annually is very limited, we are required, as part of the annual Internal Audit Report process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. Consequently, we aim to ensure that petty cash payments are appropriately supported by a trade invoice or relevant till receipt and that, where applicable, VAT has been identified for recovery.

To provide us with assurance as to the soundness of the Council's controls, we have:

- Reviewed payments made in the financial year to 31st March 2018 agreeing detail to supporting till receipts, invoices, etc.;
- Verified that reimbursements from the current bank account were correctly posted to the Council's petty cash account for the same period bringing the account back to the £150 imprest level;
- Checked to ensure that VAT on relevant purchases is being identified appropriately for recovery with the quarterly reclaims submitted to HMRC; and
- Checked and agreed the physical cash holding at the time of this interim visit.

We note that as a result of the closure of the Youth Club, the Youth Club Petty cash account has been closed and the residual funds transferred to the General Reserve. We also note the existence of a Lloyds debit card which was in use by the Youth Club organisers for ad hoc purchases and have checked and agreed the year to date transactions to underlying documentation for compliance with the same criteria as under the previous "Review of Expenditure" section of this report, with no issue arising.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Review of Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as last amended with effect from 1st April 2017 in terms of employee contribution percentages. To meet that objective, we have:

- Agreed the amounts paid to the Council's nine employees in August 2017 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable;
- Examined the Clerk's and RFO's employment contracts, which we consider appropriate for purpose;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table using MoneySoft Software's Payroll package;
- Ensured that the appropriate employee contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators in accordance with the latest percentage rates applicable;
- Ensured that, where additional hours are worked, appropriate documentation supporting the hours claimed, is in existence and certified accordingly; and
- Ensured that individual staff net pay and payments to the relevant agencies (HMRC, pension fund and unions) have been processed accurately and in a timely manner.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. In our Final Update Audit report for 2016-17 we made a number of recommendations concerning incorrect values being attributed to assets and requiring those assets to be restated in the 2016/17 Annual Return. Resultantly, the RFO has undertaken a major review of all the Council's assets during the year; checking each asset appearing on the Council's register and verifying its correct value. Additionally, the RFO has developed a completely new and comprehensive Asset Register which, in addition to the mandatory detail; (acquisition date, asset, description and purchase cost), also maintains enriched data relating to insurance valuation, geographic location, predicted replacement date and each asset is cross-referenced, by ID, to a photographic Library. Acquisitions and disposals are now recorded in linked spreadsheets which makes the Asset Register easy to use, understand, audit and validate.

We conducted an extensive review of the new register with the RFO, checking the total asset value recorded in the 2016-17 Annual Return against the value of all assets recorded in the new register, less disposals, plus additions and have agreed the declared asset values accordingly.

Conclusions and recommendation

No issues arise in this area currently warranting formal comment or recommendation.

Investments and Loans

The Council has no funds invested, other than by way of the Reserve account with Unity Bank and a £50,000 "investment" in the CCLA Deposit Fund, which received interest each

month. We have verified the appropriate receipt of that interest and its recording in the relevant cashbook.

The Council has no loans either repayable by or to it.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Statement of Accounts and Annual Return

The Council's accounting system generates automatically at the year-end a Balance Sheet and Income and Expenditure Account, detail of which we have examined and consider reflects accurately the year's transactions as recorded in the software. The software also generates the detail for inclusion in the year's Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long standing unpaid accounts or other issues arising.

Conclusions

We are pleased to record that no additional issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas.

Please note that the Internal Audit Certificate has been signed off on the 18th April 2018, rather than the date of the Audit as the Council had not received the Annual Return documents at that time, due to the late receipt of the documents by BDO.

Rec. No.	Recommendation	Response
Final Update Recommendation		
Review of Precept determination and budget control		
R1	All EMRs to be set up individually in Omega so that financial transactions may be made directly to and from the reserves and reported on directly from the accounting software.	
Interim Review Recommendation		
Review of Income		
R1	Members should ideally consider conducting the Council's fee review during its annual Budget setting and Precept determination process, with any increase in fees becoming effective from the 1 st of April in the next financial year. This will ensure that the Clerk / RFO and members are able to make more accurate forecasts of income during that process.	<i>Members resolved to adopt this process and the Council's fees will henceforth be reviewed during the annual Budget setting and Precept determination process.</i>